

## **PRE-PROPOSAL CONFERENCE**

### **Privatization of Military Family Housing Fort Carson, Colorado**

**Solicitation No. DACA45-98-R-0024**

October 20, 1998

Sheraton Hotel  
2886 South Circle Drive  
Colorado Springs, Colorado

#### **PANEL OF SPEAKERS:**

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MICHAEL REILLY: Office of Counsel, Omaha District  
RON ELLIS: Real Estate Office, Omaha District  
LEIGH ANN LUCAS: Contract Specialist, Omaha District  
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MAJOR WILLIAM PENNY: PM for CVI, Ft. Carson  
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**NOTE: Offerors are cautioned that the questions and answers provided below DO NOT amend the RFP and should not be relied upon in preparing proposals. These questions and answers were received at the Pre-Proposal Conference and are provided for informational purposes only.**

**1. QUESTION:** Several times I've seen the basic housing allowance mentioned, BAH. Where does the VHA fit into that, the variable housing allowance?

**ANSWER:** A year ago the BAQ and the VHA were combined. Now it's one allowance instead of two separate allowances. They changed. An allowance is based on the cost of living in the area that you live in -- basically it's zip code related.

**2. QUESTION:** Where is the VHA, where did the VHA go?

**ANSWER:** It's just a combination of the two old housing allowances; the variable housing, which was based on cost of living, and then your basic allowance for quarters (housing allowance). They were combined -- the soldier now receives one allowance based on where they live, where their organization zip code is.

**3. QUESTION:** The existing housing, how will that be conveyed to the owner/developer? Is it going to be conveyed at a price, or is it -- ?

**ANSWER:** No. At no cost. By no cost, we mean that the developer will not have to pay a purchase price to the Government. However, as consideration for the transfer of the existing units, the developer will be required to operate, maintain, and renovate the existing units, as well as construct the required number of new units. At no cost, as is. We put a fair amount of money in to maintain it. Some of it's in excellent condition, some of it needs work, and some of it needs to be torn up. That's part of the assessment process.

**4. QUESTION:** One other part to that. The selection process for the individuals to get housing and the new structure, how will that selection process be dictated? Will the Army be part of the selection process, or will it be left to the developer?

**ANSWER:** We will manage the housing waiting list -- you say, "This house comes available on this date," we will refer a person to the Project who is qualified to live in that unit. The Government is in no way guaranteeing occupancy of the privatized units. The Government is simply going to refer soldiers to the Project based on their order on the Government's waiting list. The soldiers will not be required to live in the Project.

**5. QUESTION:** How is the management of the housing done? How does a soldier actually get into the house?

**ANSWER:** It's bracketed by rank. In that rank there is a list of people that are signed up that we will manage. We will manage that list. From that list, person number one on that list will be referred to the developer in connection with a vacant unit when it becomes available based on the rank.

**6. QUESTION:** So within the housing allowance it will be pro rata across the entire spectrum?

**ANSWER:** There will be housing of different pay grades. The number one person on that list for that housing will move into that section of housing. The Government will manage that waiting list.

**7. QUESTION:** My question is not directly related to what you have talked about, but it's indirectly related. One of the expectations is utilization of as much of a work force in Colorado Springs to accomplish the new construction and the rehab. When we've talked about the increase in the cost of living, we've talked about the tightness in terms of affordable housing here. What is the labor market in Colorado Springs of individuals available to work for subcontractors on this extremely large and extended project?

**ANSWER:** Well, as I mentioned earlier, there has been a tremendous growth in the area, and right now the contractors are pretty busy. The laborers that actually build are in high demand. So if the question is, is there a large available work pool in the area, then the answer is no. I have raised the issue to the Work Force Development Board. I think you will be in competition.

**8. QUESTION:** In one of the sheets it said, "Ft. Carson Project Government Contribution." The first line says, "Government loan guarantee of 80 percent of the debt." That appears to be in conflict with the RFP that says, "80 percent of the value or the outstanding debt."

**ANSWER:** It should be the lesser of the outstanding debt or 80 percent of the value of the project. The legislation limits the amount of the Government's Loan Guarantee to the lesser of payment to 80 percent of the total value of the project or the outstanding debt balance. For purposes of the Loan Guarantee, the Government is defining "Total Value of the Project" as the total project development cost as approved by the Government.

**9. QUESTION:** The introduction of this electronic funds transfer seems to be a new wrinkle. Could you describe what the difference between that and allotment and what the final effect for us is?

**ANSWER:** Essentially the difference is that the electronic transfer would come from the soldier's individual banking facility. And soldiers are required to have their paycheck deposited to a banking facility. But they will be responsible themselves for setting up this electronic transfer from their checking account, or whatever account, to the landlord, or whoever the recipient will be that wins the contract. That's different from the rental allotment process, which is a process whereby the soldier does not receive that money; that money goes directly from the Defense Finance and Accounting System to the landlord. There is an alternate kind of a variable to that that would allow the housing organization to have a direct link with the defense finance people so that it would be an allotment. We're looking at trying to set that up. The decision on how payments will be required will be made in a month or so. Currently, ACSIM is looking at making the payment similar to the means soldiers pay for their dental coverage. Basically, an allotment that cannot be stopped by the soldier. This would ensure the soldier could not just stop the allotment. It would also allow for increases based on promotion or decreases based on demotions. **See Amendment 0003. Payments will be by allotment with one check to the Contractor from DFAS on a monthly basis. Rent payments will be adjusted for demotions at the time of occurrence, however, adjustments for promotion will be made on a yearly basis when the BAH rates are adjusted by the Government (typically January).**

**10. QUESTION:** In the list you have provided us you have a provision how we take care of state and local property taxes. Has Fort Carson received any relief from either or both state and local taxes? Have they indicated that they are willing to do that (inaudible)?

**ANSWER:** No. The Government makes no representations regarding the applicability of any taxes upon the Premises. The Contractor/Lessee must agree to promptly pay any and all taxes imposed by the State or its political subdivisions. See the RFP, Amendment 0002, Attachment 2, page 2-3, paragraph 4.e. **SEE AMENDMENT 0003.**

**11. QUESTION:** Well, the RFP says you have to assume property taxes, and you seem to imply that you don't have to assume them if the developers want to take a risk.

**ANSWER:** On the taxes, in the RFP it says, "In the absence of clear written direction from state and local tax authorities that the property taxes are not applicable or are reduced, Offeror's proposal shall assume that property taxes will be assessed on the project and include such costs in its financial projections." The Government makes no representations regarding the applicability of any taxes upon the Premises. The Contractor/Lessee must agree to promptly pay any and all taxes imposed by the State or its political subdivisions. See the RFP, Amendment 0002, Attachment 2, page 2-3, paragraph 4.e. **SEE AMENDMENT 0003.**

**12. QUESTION:** So your answer is it would not be in noncompliance with the RFP if you don't pay property taxes (inaudible)?

**ANSWER:** The Government makes no representations regarding the applicability of any taxes upon the Premises. The Contractor/Lessee must agree to promptly pay any and all taxes imposed by the State or its political subdivisions. See the RFP, Amendment 0002, Attachment 2, page 2-3, paragraph 4.e. **SEE AMENDMENT 0003.**

**13. QUESTION:** Has the former loan guarantee been submitted to the rating agencies?

**ANSWER:** I believe the answer is yes, in the sense that the Guarantee is part of a public solicitation. There have also been general discussions with the rating agencies about the Loan Guarantee. I don't know what the response to the Loan Guarantee has been from any particular rating agency.

**14. QUESTION:** (Inaudible) --

**ANSWER:** This loan guarantee is a modification of the loan guarantee that we used at the Lackland Air Force Base transaction, I believe.

**15. QUESTION:** (Inaudible)?

**ANSWER:** Finch Fitch & Moody looked at the Lackland Guarantee, and S&P looked at it as well. The Lackland transaction was an unrated insured bond deal.

**UNKNOWN SPEAKER:** Actually, to address that gentleman's question about the rating issues. Moody's has issued rated criteria, but it is going to be dependent upon each proposer's financial structure of their proposal. And basically what they've said is they are going to look at each one on a case-by-case basis.

**ANSWER:** Yes. Our position as financial advisors has been that these projects are first and foremost real estate transactions and that they should be rated primarily on the strength of the real estate, not solely or primarily on the basis of the Loan Guarantee. I actually reviewed the

Moody's article before it was issued and came out. But part of it deals with the rating issues. There are a lot of issues. It's a new program. That's why the Government doesn't want to be involved in exit strategies. I know execution is important, financial execution is an important part of a proposal. But exit strategies are kind of out of the Government realm now, and you need to make sure that if you're going to use a rated type transaction, you get to the rating agencies and you understand all the ramifications very early in the process so that you're able to close, and you've got your deal underwritten by the time it takes you to come to the table.

**16. QUESTION:** The RFP addresses a reduction in the BAH for a person who is demoted. How about the flip side of that where a soldier is promoted and his housing allowance rises concurrent with that promotion? Promotions in the Army are a whole lot more frequent than demotions, in my experience. But I did not see that addressed in the RFP. Where's that extra money go?

**ANSWER:** The soldiers. As stated in the RFP, the way it's written right now, it is like this: In the case of a demotion, there is a change immediately. In the case of a promotion, if I'm not mistaken, it's left until the annual update, which is based on the fact that the BAH levels go up each year in January. So, if I got promoted tomorrow, I wouldn't change my allotment or my electronic transfer or however I'm paying my rent until my annual update came around when the BAH rates went up.

**17. QUESTION:** Whose responsibility is it to notify the landlord of a promotion or demotion?

**ANSWER:** The housing office. The housing office is going to handle an active referral function for these houses. They're the ones that are going to feed the tenants to you as they come on base first -- first referral.

**18. QUESTION:** They would be involved with renewal of the lease so we would know --

**ANSWER:** They will provide you with a list of the current rank for the tenants and the housing at the time, correct.

**19. QUESTION:** We go back to that question about allotments and electronic transfer. You said that that would be cleared up for us prior to award. Seems to me that should be cleared up before we submit anything. That is a significant point.

**ANSWER:** Well, let me address that from a financial situation. Maybe take some of the heat off. I realize that from a security issue and security funds issue that it's a big deal for financial perspective. What you need to do is have a contingency plan for how your deal might look with both types of payments and talk to your financial sources and figure out how they would deal this to them. It would be great if we could resolve this issue, but it's one of those policy issues that has not been an easy answer. To give you an idea of the time frame we're talking about; the decision will be made probably within the next month or so. So that should give enough time for everybody to factor that in and make their decision on their proposals. The variation that I was talking about is -- what we're looking at now -- probably the best of both worlds. Because that would be a corporate electronic transfer. And in fact, this particular variation is being used. The system is being used for the triservice dental care plan, I believe. And it would not allow a soldier to stop the allotment. The soldier would be giving up that right when the soldier signs the paperwork. And it also would allow for some changes to be made if there is a change in BAH as that change occurs, rather than waiting for something to happen months down the road, like the adjustment of BAH in January. So

that there will be some kind of assurance that the soldier cannot just walk in and stop whatever type of payment there is prior to getting some approvals, either through command channels or whatever, set up. **See Amendment 0003 and Question and Answers 9 and 16 above.**

**20. QUESTION:** Did the equity requirement, 3 percent of the total cost in the financial plan change from the initial RFP where the language said –

**ANSWER:** The initial RFP requested 10 percent equity contribution in the financial plan, and it said right afterwards that the amount may be negotiable. Now we're saying it needs to be 3 percent cash on contract award. So in other words, you can't use various financial sources during your proposal period, such as NOI during construction and other sources. The performance deposit does not count as equity. Whether it can come out of debt proceeds, I don't think so. The performance deposit must be a cash contribution by the Offeror at the time of contract award to be deposited in an interest bearing account. It may not be part of the Guaranteed Loan balance; however, the Government may consider the use of a performance bond or letter of credit. The Government will be considering comments regarding the priority of funds in the lock-box accounts. Any changes will be reflected in an Amendment to the RFP.

**21. QUESTION:** And secondly, there were some contradictions in the RFP about whether or not debt service could come before certain escrow accounts. Can debt service be paid prior to any escrow account, or is that always the -- I think the imposition account and (inaudible).

**ANSWER:** I think the one exception is under the solicitation, that there has to be an escrow for reserves for replacement. Which is not an unusual escrow for residential units any way. That is superior to debt service. So that is one anomaly in the transaction, the typical waterfall lock box arrangement. So you need to make sure that you have that escrow for reserves for replacement as part of debt service as part your maintenance obligation. The Government will be considering comments regarding the priority of funds in the lock-box accounts. Any changes will be reflected in an Amendment to the RFP.

**22. QUESTION:** And the second question – and last -- is the default provision seems to imply that if there is default that the lender gets squeezed out by the Government. Has there been consideration as to (inaudible) capitals (inaudible) Government contractors, also?

**ANSWER:** I'm not sure I understand -- which default provision are we referring to?

**QUESTION:** The default provision in the RFP concerning the performance deposit escrow account. How does that position contrast other lenders who may come to the table and fund the project?

**ANSWER:** I'm not sure that we thought about the performance deposit and how the default provisions might affect lenders. I need to take a look at that, and we'll get back to you on that. We'll try to answer that this afternoon in our question and answer session. But as you said, it was not intended that the performance deposit would be collateral pledged to a lender, or that it was primarily intended to benefit or protect the lender. It really was intended by the Government as a way of keeping the developers interested in performing their obligations. One of the problems that the Government has, unlike private participants, if you've got to deal with a lender and the borrower defaults, the lender can make a decision to cure and stick you with the bill. That's because that lender has a source of funds. The Government doesn't have a petty cash account lying around that allows them to do that. It must seek appropriations because of anti-deficiency issues. So one way

to get that was by forcing the developer, if you will, to fund an account that would be available for the Government to take care of things like the grass not being mowed, but it was supposed to, and they notified you and you still haven't performed. Think of the performance deposit as analogous to a security deposit under a commercial ground lease. Performance deposit allows the Government to contract with somebody to go in and do your job for you, if you will. So it really was not intended primarily to benefit the lender. But I do understand your point. The Government is not interested in performing on behalf of the developer. The real purpose of the performance deposit is to provide the developer with added incentive to perform, and in the case of insufficient project cash flow, the Government may consider permitting the developer to use the performance deposit to pay project costs. Finally, the lender will have notice of defaults by the developer and the opportunity to cure such defaults under the ground lease. Therefore, the only time in which the performance deposit should be spent by the Government is in those circumstances under which neither the developer nor its lender cures a default. In any event, however, the performance deposit will not be collateral for the lender.

**23. QUESTION:** I have a couple. But first, I'd like to comment on the tax issue. Is there potential -- and take this for what it's worth -- is there potential for proposer A to cut a better tax deal than proposer B, for whatever possible reason that may be?

**ANSWER:** I think that question goes to state and local taxing authority. I don't know that we have the right people up here to answer that question. But I believe that the state and local Government, should they decide one way or another on property taxes, will have to be consistent throughout the application of that finding throughout the proposers. So, I don't think one proposer or one group can cut a better deal on an issue like property tax than any other group. And as a matter of fact, I would think that they would have to come out with public notice on what their decision is. But, that's something that you need to ask them specifically, because that is a state and local taxing authority issue. The proposer has the responsibility of determining the tax liability consistent with the requirements of the RFP. The above answer states that it is unlikely that a state or local taxing authority would treat one proposer different than another with regard to property taxation. However, the Federal Government makes no representations regarding tax matters. If any proposer has clear, written direction from state and local tax authorities that property taxes are not applicable or are reduced, that proposal will be considered in light of the documentary evidence presented. Each proposer has the obligation to determine the property tax situation with the appropriate regulatory authorities. **SEE AMENDMENT 0003.**

**24. QUESTION:** A couple questions on the cost for moving the member. Who will assume the cost of moving the member during the initial construction renovation phase?

**ANSWER:** The Government.

**25. QUESTION:** Who will assume the cost for moving the member from an off-base private dwelling onto the private sector housing?

**ANSWER:** If the soldier is moving from adequate housing off post to a house on-post, the soldier bears the cost.

**26. QUESTION:** Okay. And I assume that was probably going to be the case. How does that influence, then, the stated backlog, or the stated waiting list, if that member actually has to pay for

that move versus having the Government pay for it? For instance, this morning there was talk about having a waiting list that was approximately 24 months long and a tour of duty of approximately 36 months. Well, if the two-striper soldier out there gets an opportunity to move on base, it's going to cost him 3- or 4- or \$500 to do that to move for a year. He may be less inclined to make that move.

**ANSWER:** I cannot answer that question, because we don't have any history to look at right now, because at this point the Government does pay for that move. You also have to go back to the raw statistics about what we have. We have the occupied housing units on base. So you have a built-in tenant base for the first 1823 units that the Government will pay for the move and the relocation during the renovation phase. So you're talking about filling your 840 additional units required by the RFP. And the housing referral office should comment here, but they have new people coming on base all the time, and the financial incentive to move on base, if you start to look at the numbers -- and they showed some of them earlier -- is substantial. So a couple hundred dollars moving cost -- a lot of these guys do a lot of their moving on their own, so they keep their cost pretty minimal. I don't think you're going to have a demand issue. But you do have to work through that on your own and be comfortable with it.

**27. QUESTION:** And the final question, is I'm not a property manager. I just have some concerns about -- we have the possibility to move civilians -- a few of these civilians or civilian into these units in the event that the occupancy rate drops below a certain point. Is that going to be appropriate for Carson?

**ANSWER:** Yes.

**28. QUESTION:** Now, let's say that situation came about. Will the fair housing laws apply? Since this technically is a private area, how -- okay. You're nodding that, yes, the fair housing laws do apply.

**ANSWER:** Yes.

**29. QUESTION:** Now, when it comes to division of units by rank, what if you had an airman that insisted on living in the general's house and the general's house was vacant. Would he have a right to do that?

**ANSWER:** No.

**30. QUESTION:** Would that be considered discriminatory under the fair housing law?

**ANSWER:** We asked that question, again, of legal counsel in the Pentagon, and they said that because the Government will have a specific agreement with a private entity and outline the occupancy of the units, just as they do now for other types of housing programs, that they will be able to dictate who lives in those units.

**31. QUESTION:** The question I have plays off of the previous -- when you have a civilian living in a Government set of quarters, the RFP says that military police and fire support will be provided for the whole housing area. I read MPs and the post fire department. What authority does a post MP have over a civilian that we have leased one of these sets of quarters to?

**ANSWER:** As you enter any military post, there's always a sign there that says as you enter, "You consent to the fact that you are now under the federal jurisdiction of the military police



and the fire department." That won't change, even if someone's living on post or just visiting post. So, I don't think that would change anything that's already in place. I would add one thing to that. If we have an incident that occurs on Ft. Carson, and we have to bring in the local constabulary, the police, we have agreements between the CID, MPs and the local police. Those agreements are in effect, and they're going to remain in effect. So, again, if there's a law enforcement issue, we already handle those now, and we're going to continue to handle those in the future.

**32. QUESTION:** I assume the number of 840 new units was not a number that was just picked out of the air, but rather one that was arrived at through your own cash flow analysis. Are you in the position to share that information with us?

**ANSWER:** It is true that the scope of the project has been tested on financial analysis to make sure that the contributions on the Government side are adequate for what we're asking for. So that analysis has been done. The 840 number, I think, came out of the original Delta report that was done several years back, probably three, three-and-a-half years ago. I do believe that is available in the information document room. I would just like to add that aside from the financial aspect of determining that number, the Army also determines the number based on the -- (Interruption from the audience). As I started to say, in addition to the financial aspect of determining that number, the Army has a policy that, at this -- at the time that we were developing the project -- requires that we don't build beyond -- or at that time, that we did not set a number beyond the actual housing requirement for soldiers. And at that time, it was determined that 840 would be the adequate number to satisfy the housing requirement within our particular policy guidelines at that time.

**33. QUESTION:** As an add-on question, then, was the 840, as originally developed, did it have to do with density of available land?

**ANSWER:** No.

**34. QUESTION:** Page 2-28 of the RFP mentions indemnity. It appears to leave out who's to be indemnified. That just needs to be clarified. Bottom of the page. "Contractor shall indemnify and hold harmless" -- (Reporter interruption) -- "... indemnify and hold harmless." It doesn't say who you're going to be indemnifying or holding harmless. Although you can probably assume it's the Government. It's the bottom of paragraph number four, last sentence.

**ANSWER:** Yes, it is the Government that will be indemnified and held harmless. The intent of that is merely that if you do construction on site at Ft. Carson, and it does not comply with local regulations or laws of some code or county or whatever, and there's a problem because of that, the facility can't be occupied or it can't be rented, you're responsible for that. That's not something the Government will be responsible for.

**35. QUESTION:** Will any of these relocations be subject to the Uniform Relocation Act? And I'm referring specifically to -- there are pages there what you're supposed to do and when you're supposed to do it, if someone doesn't want to move and all these types of issues. We manage properties for HUD, and we're doing a lot of basically forced relocations because of housing conditions. But the law applies, apparently, to any federal effort at relocating people in federally owned housing.

**ANSWER:** No. We are not relocating people out of the housing units. The relocations during renovation and construction will be to other housing units under this contract.

**36. QUESTION:** The equity issue, is that 3 percent of the total contract price or 3 percent of something else? Are we talking about a 50-year value of the contract that the contractor's going to have to come up with the 3 percent equity on? Or are we talking about construction costs, renovation costs?

**ANSWER:** It's 3 percent of the total project cost as defined in your budgeting for the project. So basically that carries you through your renovation period.

**37. QUESTION:** So once renovation's over with, then the (inaudible) -- your 3 percent of up through renovation?

**ANSWER:** Right. It's your typical construction loan. What you come up with at the beginning of a project like this is to figure out how much it's going to cost you to do everything required under the contract. It's 3 percent of that amount.

**38. QUESTION:** Two construction questions. The two construction questions have to do with, one; we want to support the local economy in the way of material and labor. But if we find that we can bring in material at a better price, can possibly one or more of the nine in-loading ramps, the rail capacity, can that be scheduled to be used to bring in, say, brick into the installation?

**ANSWER:** Since this is an issue that solely rests on decisions made at Fort Carson, coordination with the appropriate agencies at Fort Carson will need to be accomplished to work something out, if and when the need arises. However, do not base your proposal on the assumption that this can be done.

**39. QUESTION:** And number two, the area in the south just across the street from the golf course, there's an archery range which occupies a nice piece of property. Is there a possibility of relocating the archery range, at the contractor's expense, to make use of that property a little bit better?

**ANSWER:** No. That property, the way the RFP is currently set up, could not be used for housing. The RFP provides for the lease of approximately 467.18 acres of currently developed land and approximately 309.69 acres of undeveloped land. Currently there is no additional land because surveys have not been done on additional lands. Proposals should be based on what is in the RFP. Contractors should not assume that land above the amounts stated in the RFP will be available. See the RFP, Attachment 2, paragraph 2.

**40. QUESTION:** The RFP indicates that the Government will convey 467 acres currently developed and approximately 309 acres of undeveloped land. Is there additional acreage that can be used for additional amenities? If so, how much?

**ANSWER:** First of all, it should be understood that any land to be used in connection with this project will be leased and not conveyed. No, there is no additional land available. Currently there is no additional land because surveys have not been done on additional lands. Proposals should be based on what is in the RFP. Contractors should not assume that land above the amounts stated in the RFP will be available. See the RFP, Attachment 2, paragraph 2.

**41. QUESTION:** Can the proposal present an alternative to -- an alternate suggestion? One of the things I've observed down at Ft. Carson is some of the existing housing has a rather high density,

and the Army would like, I believe, to have a lower density housing. It could require additional acreage to meet that goal.

**ANSWER:** Like I said, the land currently identified in the RFP is all that's available for development right now. Proposals should be based on what is in the RFP. Do not assume that land above the amount in the RFP will be available.

**42. QUESTION:** I'd like to ask a question about the reinvestment account. It's not clear to me exactly who owns it. It looks like it's sort of a place to sweep any excess money over the life of the contract. And so I'm wondering who owns it, and could you talk a little bit about what the purpose of that is?

**ANSWER:** Technically, the reinvestment account is owned by the contractor. The purpose of the reinvestment account is to benefit the project and the tenants of the project over the long term. And the idea behind the reinvestment account is that it's your opportunity to offer, as part of your proposal or participation, that the Government can see directly in terms of ways to improve the project out of your net cash flows. Although you own the account, the Government has certain signatory authority over the account and how it's spent. Because that's part – the idea is going to the proposal for something you've set forth in terms of what you'd like to do to benefit the project, in addition to yourself, over the life of the contract. So that's the intent of the account. Does that answer your question?

**43. QUESTION:** Well, I guess it sort of talked around it. The -- it says it's gonna protect the Government's investment. But at this point the Government doesn't have any investment. I mean, it's our investment that we would be enhancing apparently.

**ANSWER:** Well, the Government does have an investment. They're giving you land at no cost, and they're also providing improvements as a contribution to this deal. That is a value investment to the transaction that lasts the life of the transaction. And we do get -- expect certain things in return, granted. But that is a Government investment. And the idea is -- you don't have to propose -- put anything in the reinvestment account. The idea is that if things go real, real well, then you may want to provide for reinvesting cash monies into the project. That could be having out-year replacements and renovations or anything along those lines. So that's the concept behind that investment account. It's an optional account. You're asked to commit zero to a hundred percent of that cash flow after other commitments as it falls on the waterfall. So it's just something that you can do to provide value to the Government in your transaction.

**44. QUESTION:** Page 19 of the RFP refers to the real estate management bond being initially \$500,000 from the Offeror and builds to \$1 million. But I could not find where that growth comes from. Can you help me out on that one?

**ANSWER:** It's the same thing as a performance deposit account that we were talking about earlier in the real estate management part. The idea was that it comes from interest. If you read the language -- and the question was asked earlier, does the performance bond have to be cash, or could it be part of your equity requirement? The question was answered that, no, the performance bond could not be part of your equity requirement. We didn't answer directly the question whether it could be bonded. Originally when we thought about this account, as indicated earlier, we were thinking about ordinarily a lender has a pot of money that if he needs to cure something, he can do so. The Government doesn't have any funds in which to short of default, exercise certain -- short of

a serious term of default, exercise certain rights. For example, if the housing units aren't being maintained the way they should be under the contract, the Government thought that they'd like to have a pot of money that's -- short of putting the whole contract in default, they could use this performance bond to execute, for example, any improvements and then require the contractor to come back and replenish that account. Originally, and as is written in the RFP, it was intended that those be cash funds in some kind of saving investment vehicle, and they would accumulate interest over time. That's why we figured that, well, once they got up to a certain point, interest accrual on those funds, that we could give them any excess interest over that million dollars back to you and refund it to you. So that was the mechanics.

**45. QUESTION:** Is the BAH fund that's received in total equal to the amount of the total BAH of all the people who are staying in the units? Or is it equal to the total amount of BAH assigned to the units?

**ANSWER:** The BAH is equal to the amount of the individuals assigned to the units. There will be a designation of unit by grade. There will be a rental amount of cash to that grade. But, if someone other than that grade individual moves into the unit, then the rent will be the BAH of the individual who moved into that unit.

**46. QUESTION:** How is it determined who will be moving into that unit? That's a bit of discretion on the Government?

**ANSWER:** The Government will maintain the waiting list and will refer the individuals to the contractor. If there is something out of the ordinary, then I'm sure that there will be discussion between the Government and the contractor so that there's agreement on everyone's part so that it's not an arbitrary decision.

**47. QUESTION:** As a follow-up to the question the lady just asked, let me just give you a hypothetical and let's talk about an E5 label on a particular unit, and the next person on the waiting list is an E2. We're not going to rent it to him.

**ANSWER:** There are several waiting lists. The waiting lists that we have are not just one waiting list. We have a waiting list for E2 through E4, E5 and E6, and then senior non-commissioned officers, which is E7 through E9. And it breaks down the same way for officers. There are four separate lists for officers. So, the idea of getting an E6 in an E2 quarter or vice versa, it won't happen, because we'll go off that waiting list.

**48. QUESTION:** Well, you see why I asked the question?

**ANSWER:** Yes, sir.

**49. QUESTION:** Because that was not clear. That's very important.

**ANSWER:** I'd like to follow up, though. Not only do I see why you ask it, but I asked my housing manager if we have that breakdown. In other words, by grades and the ranks that was just provided. We do not have it here today, right here, right now. But if you get in touch with our housing office, we'll give you that information.

**50. QUESTION:** Can I ask a question? If you'll look at the RFP on page 1-9, and that's the waterfall, the lock box. It looks like 1-9. And what -- a little bit out of the ordinary on this

particular flow of funds, particularly if you're trying to finance a project like this, it talks about monthly deposits to the escrow account and into an account for repair and replacement account. And then it goes on down and finally talks about debt service on the loan. I hope you understand that reduces the coverage that you have available, and therefore that reduces the quality of the housing that can be built. If you put that below, because it's going to be adequate coverage, you're going to have a much better situation here. I think you ought to consider changing that order of flow of funds. I don't know. I mean, that's something you can clearly do before you go out on a final situation here.

**ANSWER:** Your point's well taken. We realize that everything that comes out of debt service coverage adversely affects the process. We will look at that issue and re-look at the waterfall. It was pointed out earlier that there may be some inconsistencies between the various waterfall requirements and the ground lease in the RFP. So we'll work through that and take your comments. The Government will be considering comments regarding the priority of funds in the Lockbox accounts. Any changes will be reflected in an Amendment to the RFP.

**51. QUESTION:** Well, one other point that I think you should make, we were talking about guaranteed lender extraordinary expenses. A guaranteed lender can be viewed also as a trustee. And that's what these extraordinary expenses are related to. In case there is a default on this transaction, the trustee gets paid first. You're going to have a heck of an argument if you write it any other way than that.

**ANSWER:** I think you are misinterpreting what's there. And this just means that we need to clean up the language a little bit more to make it clear here. And in fact, the entire flow of funds is something that we'll take another look at. But, what this is referring to are not extraordinary expenses of the lender or a trustee. What we're really talking about is extraordinary expenses of the project. For example, in the event that there's a need to make immediate repairs or work planned for that weren't part of the projected budget, then where in the waterfall do those get funded? So...

Your point about what happens to the lender and what fees they can take, where that falls is --

**QUESTION:** Right. I think that's real critical. It really doesn't matter where they get paid in the normal course of events, but if there's a problem, they have to get paid first, because the judge is going to order it to be done.

**ANSWER:** We will take that one under advisement, as well as the other one, so we can make the language as clear as we can possibly make it.

**52. QUESTION:** Another construction question. When you build a new 840-plus, each unit will have its own utility meter. Now, it's also recommended in the RFP that when you renovate the existing, that you separate the meters so each unit has its own utility meter to control its usage. Now, down the road when the existing contractor had the option of picking up when you privatize - you're looking at that -- when you privatize the utility lines, will the existing contractor have, you might say, first crack at picking up the control of utilities? Or will that be re-bid if you have to compete? Because if I go in there and I say, "Hey, I want new meters put on every existing," and I work hard to do that and then it comes up and says, "Hey, let's privatize," and then all that extra work, which is really not required, it goes to someone else.

**ANSWER:** As far as what is known right now, the contract bid for utilities privatization will be open without regard to the awardee. In other words, the awardee for housing privatization will not have priority over others.

**53. QUESTION:** Cable television and telephone are normally considered utilities, I believe, except that the soldiers pay those. Cable TV can be a large source of revenue for a developer if he's prudent. On these units, are we allowed to put in our own cable TV, or do we have to follow some Government contract that already exists?

**ANSWER:** Currently, Fort Carson has an exclusive contract with Charter Communications for cable TV (but not over-the-airwaves communications). This contract expires in 2005. There is no exclusive contract with the phone company.

**54. CLARIFICATION:** There was an earlier question: Who pays for moves from off-post to on-post? The current scenario is the soldier comes to Ft. Carson and there's no longer housing available on Ft. Carson, he can find housing off-post. But when -- he's on a waiting list, and housing becomes available on Ft. Carson, the Government will pay for them to move on to Ft. Carson.

**55. QUESTION:** You indicated earlier that 840-plus units in the typical programming cycle for the Milcon, that 840 efficiency or whatever would be the most that can be built under -- so that you don't wind up with a surplus. Now you're indicating that possibly we could go ahead and build more than 840 new units, and that may be a plus. How -- could that potentially violate your housing market analysis since it is, in fact, your land?

**ANSWER:** First of all, don't read anything that's not there into that Delta report. That's several years old. It's based on the Government's estimate and their consultant's estimate of what feasibly could be done several years ago. It included several scenarios and assumptions that are probably no longer valid. But to back up, 840 new houses, that's what we're looking for. What we're really looking for is for that ceiling not to exceed the 2663 units. That's the maximum number of units Ft. Carson is looking for. So that would take an additional 840 new units to bring it up to that total. That would include the 1823 current units.

**56. QUESTION:** So the concept is at least 840. Implying that if you wanted more is totally misleading.

**ANSWER:** No. We're looking for 840. We're not looking for above and beyond. It's the current 1823 plus the 840.

**57. QUESTION:** It's a little bit off point, but I think we're going to be ending a little earlier than scheduled. Is there any possibility of scheduling a tour this afternoon for those that can't stay?

**ANSWER:** As long as they provide their own transportation, we'll have an escort for you.

**58. QUESTION:** My question's not as technical as the rest of them. But I'm a subcontractor here in town, not a general contractor. Obviously most of you gentlemen and ladies have come in from out of state. Obviously I'm concerned about local contracting and local people. I've run up to 45 gentlemen on my construction company. But I have two questions: One is, the 840 houses -- you said that was pretty much a top. What about -- does that consider the ones that are old and need to be tore down?

**ANSWER:** No, it does not.

**59. QUESTION:** So basically it could be 840 plus whatever has to be tore down would have to be replaced also?

**ANSWER:** Right. If you look at the RFP, it's up for you gentlemen to decide, when you look at the existing quarters, whether you feel it is more economical to do the renovation or to tear down and replace. But the key number is the total cap number of 2,663 units.

**60. QUESTION:** The other question is, you say it's up to us gentlemen to decide which comes down. Who has the final say? If I say, "That house needs to be torn down because it's not able to be fixed up," who has the final say?

**ANSWER:** It's your house. You decide.

**61. QUESTION:** Okay. My other question is, as a subcontractor and not a general contractor, how am I going to be more involved in what's going on with the general contractors?

**ANSWER:** My advice would be -- we've told everyone, on our web page you can download the names and point of contacts of everyone one that we've sent an RFP to. For subcontractors in the audience, if you're looking to team up with somebody and find out who's playing the game, go to the web page, download who those people are and make your contacts. That would be my suggestion.

**62. QUESTION:** Just another point of clarification. When you're looking at your cable TV contract, I think you should also include laundry contracts and other similar additional revenue sources that multi-family developers and operators are used to, including other income categories. And so if they could look at the revenue potential of all the sources, not just cable TV.

**ANSWER:** Please see Amendment 2.

**63. QUESTION:** Just kind of a question back on taxes. But the -- like Burger King and the other fast food places, are they paying taxes? Property taxes? I'm just curious.

**ANSWER:** That's under AAFES. The Burger King is an AAFES-related facility. It does not pay any taxes. But, certain concessions at the PX, they do. And so does -- I think it was either the Kentucky Fried Chicken or the Popeye's. One thing that should be pointed out is in Amendment 2, page 2-14, there's a statement in there that deals with just that particular question, day-cares, laundromats and so forth. It gives you some guidance on those types of property, and if you're proposing those, who you need to coordinate that through.

**64. QUESTION:** When is Amendment 2 going to be issued?

**ANSWER:** Amendment 2 was issued on October 29, 1998.

**65. QUESTION:** The question I asked you during the break was, both in the RFP and during the presentations today stress was placed upon being creative in terms of coming up with unique and not-presented alternatives. However, based upon a number of years of contracting with the military, I understand and have appreciated an evaluation based upon A, B, C, and D. Therefore, being creative may fly in the face -- or flies in the face of what my experience has shown to be military evaluation of proposals. Is there any type of comfort or reassurance that you can provide to us that we will not be penalized for being creative?

**ANSWER:** Well that's a good question. See, the art, since I started, is -- as I think probably people who have done traditional Milcon construction, and the way I like to, I guess, look at it is, when you know what you want, you know exactly what you want. Let's pick a new barracks that's being constructed out at Ft. Carson right now. The Army knows pretty much what it wants its standardized barracks to be. So, we hired an Architect/Engineer firm to design a house, and we put out a set of plans and specs. Very detailed, because we know exactly what it is we want. We're not interested in someone coming in and saying, "Well, we can give you 20 foot more square foot per room, but I won't give you as many open areas around the building," for instance. We're not interested in that. We know what we want. The Army has a standard product that we're procuring, and we tell you exactly what it is we want. We want a competitive bid on it. Under CVI at Ft. Carson we're really looking for somebody to come in and develop a community for us. I don't know too many people in the Government that have experience doing that. So, what we're attempting to do is to (inaudible) private industry by giving you some broad general guidelines within the RFP that tells you what we're looking for. We hope that that suffices enough for you to know what we need and for you to propose. By creativity if you're going to come in and say, for instance, "We propose to have" -- and I can't think of a good example -- for instance, trailer homes. "Our proposal is going to be we're going to bring trailer homes in." Well, you can propose that, and that would be creative. But I think you have to weigh that against what maybe your competition would propose in reading the RFP. I don't know of anywhere in the RFP where we talk about a preference for trailer homes. We made it pretty clear we're looking for single-family housing as much as possible with some duplexes and some four-plexes, whatever. Knowing, once again, we are unable to really predict your individual firm's financial capabilities and what you feel the threshold is of feasibility as far as the number of single-family homes or whatever. So, we've tried to outline broadly our requirements in being able to tell you what our preferences are without exactly telling you, like on the current Milcon projects, exactly what it is we want you to build. We really don't know. If we had it down, we'd design it ourselves. So we're really looking for you to use your standard product -- I think that's well documented in the RFP -- and come up with a proposal.

**66. QUESTION:** I understand what you're saying, and it sounds quite good. Let me use the analogy of the banking industry and the way that it has changed. In the past, banking officers, lending officers, had a great deal of discretion. With the change in regulations and their continually looking over their shoulder because someone's going to be evaluating their decisions and everything has to be documented and the "I" 's are dotted and the "T" 's are crossed, and so it's not so much the lending officer making the decision if a loan has changed. It's people upstream who are going to be looking over his/her shoulder. Has upstream military come to a realization that they're not going to be able to evaluate the decisions that you all make like they did in the past? It's more of an evaluation after the fact, I think. It sounds to me like you all have made a conscious decision that this involves a change in approach. Have people upstream from you also made that conscious decision that what you're doing is different?

**ANSWER:** Yes, very much so. This is very much a top-down pyramid initiative to privatize and be creative. The evaluation criteria are set in concert with our headquarters, US Army Corps of Engineers in Washington, with the Omaha District. And more importantly, the people at Ft. Carson. There are a lot of these projects on the horizon, and each installation will have different



needs, and different importance will be placed on various aspects of the project. So, no, I don't think we've had too much undue influence from the higher levels as far as evaluation criteria.

**67. QUESTION:** What has the Army done to figure out how it's going to operate after this program begins? In other words, how are you going to reinvent yourselves to interact with basically an owner of housing on your post?

**ANSWER:** We've already begun to do that with respect to IPRs that have taken place and will continue. That process will continue. This also means that where Fort Carson currently has 14 people in the housing management office, it will go from 14 down to 5. We (inaudible) in how we're going to run the referral office. Those questions are being worked. So again, those management procedures, business processes are being put in place.

**68. QUESTION:** Do you all already have inspection plans? Do you know how you're going to be protecting this asset? I mean, at the end of this 50 years, you're going to have some diversionary interest in it, so are you going to be protecting your asset throughout -- through some sort of routine inspections, or how are you going to do that?

**ANSWER:** Within the RFP there is provisions that need to be proposed upon as far as long-term maintenance, long-term replacement of a particular thing or whatever. That all is part of your proposal. That becomes part of the contract. So that, in itself, becomes a governing document, how we'll do long-term maintenance of the facilities. The other deciding factor is going to be the soldier, because the Army has the requirement to refer soldiers to you. But the soldier is under no requirement to rent from you. So, if your units become to the point where, for the money, he can find something better off post, guess what? He's not going to be renting from you. And that does not invoke the loan guarantee, because the loan guarantee talks in terms of the number of referrals, not the number of people renting. So, you have a vested interest to maintain those facilities for the long term.

**69. QUESTION:** This is a connective and a three-part question. When you have soldiers who have been given orders and you must clear -- I think, on this site, or this post, you use a central clearance facility, which past experience slipped through in that a soldier goes to a central place, and then he gets his clothing stamp. That's all okay. He goes there, he gets his housing stamp. Housing's okay. When, in fact, he might not have cleaned it up. It might be still a wreck. Now, if he skips off site and his facility is still torn up, one, who picks up the tab?

**ANSWER:** As stated in Attachment 2, paragraph 6.e., the military tenant will agree to Government release of future duty assignments and address information to the contractor. In addition, military tenants will be required to obtain **Contractor** verification prior to being allowed to clear the installation housing office.

**70. QUESTION:** He uses his home and utilities, but it's more than just use, it's abuse. He's downright destroyed, say, his refrigerator. Who makes the determination whether the contractor picks it up (replace or repair) or the military tenant?

**ANSWER:** The Contractor makes that determination.

**71. QUESTION:** The third part, you do not cannibalize -- a refrigerator breaks down. Or let's use a stove. A stove breaks down. You don't cannibalize here. In other words, take a piece off of one

and a piece off of another one and put it together to make a good one. Will you be providing us a listing of what you have in stockage levels for faucets, stools, stoves, refrigerators?

**ANSWER:** All existing appliances will be transferred in the existing units to the Contractor on an "as is" basis. That becomes part of the real property. In addition, there's a small, I believe, excess number of freezers and refrigerators. A very, very small number. That's it. We do not have an inventory of parts that we're going to transfer to the Contractor. The Government will not provide parts or replacements for these items. That is the Contractor's responsibility. It will be up to the Contractor what he wants to keep in stock and at what stockage levels. The Contractor will not be prevented from taking parts from one appliance to repair another. Once again, we need to focus on the fact that we transfer the property to a private sector developer. It's his property to manage. And he needs to assume some risk associated with that. Similar to what we'll do in downtown Colorado Springs, if you will. In the RFP, Attachment 2, paragraph 6.e., it says, "The Government will not indemnify the contractor in any way, but agrees to provide reasonable assistance to the contractor in resolving liability to the extent permitted by law and Government regulations." The Army will do everything they can do to track down the soldier and make the contractor whole. If somebody's leaving the Army we're going to do what we can do. I mean, we have all the remedies under the law that you have downtown.

**72. QUESTION:** Some of you in this room have already been through round one and this is the second attempt on this project. To the extent you can, can you comment on what went wrong the first time; what, if any, procedures have changed to make sure this one succeeds? And if I can ask under part two to that, it's my understanding that in the first attempt there never was a best and final round to the extent there were discussions with multiple bidders. It seems to me with a project of this complexity, that, perhaps, is something that should be anticipated. I wonder what your thoughts are on that.

**ANSWER:** This probably is a good time to talk for a minute or two about how we got to where we are today from where we were 12 months ago or even 6 months ago. I don't know if all of you are aware, but the original procurement was challenged twice in federal court, two separate courts. The original lawsuit was brought -- and each lawsuit was brought, by the way, by a disappointed Offeror. The original lawsuit was brought, I'd say, roughly a year ago in a Virginia District Court. That case quickly moved forward to a final judgment, which was rendered in January. That judgment was entirely favorable to the position of the United States. Now, about that time the second lawsuit was filed in a different court. That court was not controlled by the precedent established in the first court. Now, we fully expected to win the second lawsuit eventually, as well. But the key word there is "eventually." Because what happened was very early on in that lawsuit, we received some preliminary rulings from the Court that were, very frankly, discouraging and left very little room for optimism on the Government's part that we could move toward a quick and favorable resolution of that lawsuit, as we did the first one. So, we had a decision to make at that point. We had to decide what was in the best interest of the project, as well as the program. We concluded that we would not be true to our mission to serve the soldiers and our customer, as well as further the goals of the law, if we allowed ourselves to be mired down in protracted litigation. So, we looked for a way to remove this out of court and back into the contractor where we thought it belonged, where we could get something done. So, for that reason - - and by the way, to give you some perspective, if we had decided to slug it out in court -- and there was some thought to do that at one time -- it's very likely that if the trial had been completed by

now, we would be waiting for a ruling from the Court. And then how that ruling went, it would most definitely be appealed. So, that's a process that would take a year, possibly two years from now. That's a luxury of time that we simply do not have. So we explored settlement options. It became clear that the only settlement option that was acceptable to the plaintiff and palatable to the Government in that case, was to pledge to the Court to take some form of corrective action. We considered what form of corrective action would be appropriate here. One possibility was to return to Best and Final Offers. Another was to start over, as we chose to do. We decided that back probably wasn't the best way to go. There's probably very little saving in time there. The assessed litigation risk was still fairly formal, and so the decision was to return to a reprocurement, which basically explains why we are where we are today.

**73. QUESTION:** The second part was, do you anticipate having a best and final round this time? What was the substance, to the extent there was any substantive correction action, to the extent you intend to operate in any way differently? Or are you just going to do it the same way again?

**ANSWER:** The Government effectively reserves the right to, again, award without discussions. My personal view is that's unlikely. I'm not a member of the selection board or the advisory council. I certainly can't speak for them. But it is possible that we will engage in a round of negotiations.

**74. QUESTION:** Given a soldier population the size of Ft. Carson, there are inevitably going to be soldier fatalities. My recollection of the housing operation is that upon a soldier fatality payment authorizations stop. But, as I remember, the family is allowed, I think, by regulations, to remain in the Government quarters up to 120 days while estate things are sorted out. Where does that place the contractor if the allotment ends? The soldier's no longer earning BAH. The family's occupying the quarters. Has that been addressed or thought of?

**ANSWER:** If the soldier dies in the line of duty, his dependents receive housing benefits for 180 days. It is the Commanding General's determination if the death was in the line of duty. If determined not to be in the line of duty, benefits for housing cease at the time of death.

**75. QUESTION:** I'm not sure this is a question, but I would like to be sure that the record reflects that we think it's very important that in regard to the allotment versus EFT versus -- I guess it was called corporate EFT -- that we would like the Department of Defense to know that it's very important that the civilian contractor be protected and also that the soldier not have to pay EFT fees.

**ANSWER:** Soldiers will be required to pay rent by allotment through DFAS.

**76. QUESTION:** What was the nature of the claim in the two lawsuits that were filed regarding the process the first time around?

**ANSWER:** I hesitate to characterize either point. I don't think it's fair, first of all, to the people that filed it to try to describe the issues they raised or why they raised them. In fact, I think one of them is even represented here today. Secondly, you know, our view is that's behind us now. We think we've made whatever changes need to be made to clarify any misconceptions that may have been, any issues of past (inaudible). So, we've moved on from there.

**77. QUESTION:** It doesn't answer the question. Is it a public record?

**ANSWER:** Yes, it is.

**78. QUESTION:** So why can't you just – what were the crimes?

**ANSWER:** Well, first of all, I don't have the Complaints here. I haven't looked at them for some time. I think both Complaints basically contended that the Government was negotiating after it made a decision with one particular Offeror. That's a misperception that we think we have cleared up in this RFP. Does that...

**79. QUESTION:** Well, can you describe what changes were made in the RFP to correct the problem?

**ANSWER:** Basically by including the loan guarantee. So the loan guarantee is no longer a negotiable issue.

**COMMENT:** We have attempted to answer your questions the best we could here, to make certain that there is common understanding across the board. Whatever you receive, questions answered, those are -- that's what we'll go by as far as the answer to the question. The written word will stand. If it conflicts with anything you understood to be said here today, please bring that to our attention. We prefer the clarification. But the word that you are to count on is the written word that you'll receive. The questions that have already been sent to us in Omaha, the written questions, they will be released with the Amendment 2, which will be in the near future, or as soon as possible thereafter.

The address for additional information on this proposal is  
[<http://ebs.nwo.usace.army.mil/ebs/contract.htm>]